

# TASC

*Technical Assistance and Services Center*

---

## **Flex Program Hour Highlights**

**Date:** *October 25, 2000*

**Topic:** *Access to Capital for CAHs*

**Moderator:** *Terry Hill, TASC*

**Guests:** *Jerry Coopey, ORHP*

*Charles Davis, HUD*

*Eric Shell, Northland Health Group*

### **Background**

Many of today's rural hospitals were primarily financed through the 1946 Hill-Burton program and supplemented with the early cost-based Medicare payment system in which capital costs were allowable. However, rural hospitals were adversely affected in 1984 when Medicare began paying all hospital inpatient services on a prospective payment basis, with rural hospitals receiving up to 40% less than their urban counterparts. Beginning in 1991, Medicare paid capital costs on a phased-in prospective payment basis. The result has been that since 1984, rural hospitals have been too unprofitable and capital pass-through too tenuous for facilities to be substantially upgraded. Thus, many rural hospitals have aging physical plants resulting in increased survey deficiencies and significant out-migration to newer, urban facilities.

### **HUD 242 Program**

The National Housing Act, Section 242 authorizes the Federal Housing Administration (FHA) to help hospitals access affordable financing for capital projects including new construction, renovation projects and capital equipment. In the past 30 years, the FHA has helped 300 acute care hospitals finance projects. Unfortunately, few rural hospitals have participated due to the onerous application process and eligibility requirements.

### **Helping CAHs Access Capital**

Earlier this year, Jerry Coopey and consultants Eric Shell and Charles Ervin met with Mary Ellen Schattman of HUD to explain the critical access hospital program. Ms. Schattman has extensive experience in working with rural populations and agreed CAHs were ideal candidates for the HUD 242 program. Shortly thereafter, Charles Davis was hired by HUD to work full-time with CAHs seeking capital access and he is currently refining the application process for CAHs.

The application process for CAHs is being simplified tremendously and Davis indicated they will make any additional changes necessary to ensure CAH participation. A fee of 0.15% of the loan amount is due with the application and if the application is approved, additional fees of 0.65% are required for loan closing. These can be included in the loan. All State Offices of Rural Health and State Hospital Associations will soon receive a brochure on this program from HUD detailing the eligibility requirements and the process for application.

There are currently three HUD 242 candidate CAHs located in Colorado, West Virginia and Alaska. They are all planning to build new facilities. Another seven CAHs are considering applying for the HUD 242.

For additional information on this program, please contact Charles Davis at 202-708-0599 or [charles\\_y.\\_davis@hud.gov](mailto:charles_y._davis@hud.gov), or visit HUD's website at <http://www.hud.gov/fha/fhahospi.html>.